

Message Text

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PAGE 01 SANTIA 03402 142149Z

73/71

ACTION SS-30

INFO OCT-01 ISO-00 INRE-00 CIAE-00 TRSE-00 /031 W

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P 132315Z JUN 74

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC PRIORITY 8983

C O N F I D E N T I A L SANTIAGO 3402

EXDIS

C O R R E C T E D C O P Y - P A R A S I X - S E C O N D L I N E

E.O. 11652: GDS

TAGS: EIND, CI

SUBJECT: COPPER NEGOTIATIONS

REF: STATE 120407

1. SUMMARY. ANACONDA ATTORNEY REPORTS GOC/ANACONDA NEGOTIATIONS IN WASHINGTON PRODUCED GOOD RAPPORT BETWEEN GOC NEGOTIATOR PHILIPPI AND QUIGLEY, BUT LEFT TWO SIDES FAR APART. TOP LEVEL ANACONDA TEAM ARRIVING THIS WEEKEND FOR RESUMED TALKS WITH PHILIPPI BEGINNING MONDAY, JUNE 17. MID-LEVEL KENNECOTT OFFICIALS IN SANTIAGO SINCE MONDAY, JUNE 10. END SUMMARY.

2. ANACONDA LOCAL ATTORNEY, MANUEL VARGAS, CALLED ON ME JUNE 12 AT INSTRUCTIONS HIS PRINCIPALS. HE STATED QUIGLEY, BELGORE, AND TWO OTHER ANACONDA REPRESENTATIVES WOULD ARRIVE THIS WEEKEND FOR NEW ROUND OF TALKS WITH PHILIPPI BEGINNING JUNE 17. HE REPORTED ON ANACONDA NEGOTIATIONS AS FOLLOWS:

3. PHILIPPI TALKS WITH ANACONDA IN WASHINGTON MAY 21-31, INVOLVED THREE MAJOR NEGOTIATING SESSIONS BETWEEN PHILIPPI AND QUIGLEY, AS WELL AS WORK BY TECHNICAL WORKING GROUPS.

4. PHILIPPI'S OPENING POSITION WAS A PROPOSAL TO PAY THE
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CODELCO NOTES FOR THE PURCHASE OF 51 PERCENT OF ANACONDA'S

HOLDINGS AND TO DEDUCT EXCESS PROFITS AND TAX CLAIMS FROM ANACONDA'S 49 PERCENT INTEREST, LEAVING ONLY \$15-20 MILLION REMAINDER FOR GOC PAYMENT.

5. THROUGHTOUT TALKS QUIGLEY ARGUED THAT ANACONDA COULD NOT ACCEPT DEDUCTION FOR EXCESS PROFITS BECAUSE IT UNWARRANTED, IN CONFLICT WITH INTERNATIONAL LAW, AND WOULD SET DAMAGING PRECEDENT FOR ANACONDA INTERESTS ELSEWHERE.

6. PHILIPPI SUBSEQUENTLY PROPOSED TO REDUCE THE EXCESS PROFITS CLAIM FIRST TO 140 MILLION AND FINALLY TO 100 MILLION. BASED ON THE EFFORTS OF A WORKING GROUP WHICH REVIEWED TAXES, PHILIPPI IMPROVED HIS OFFER THERE AS WELL, PROPOSING TO REDUCE TAX CLAIMS TO ONE-FOURTH OR ONE-FIFTH OF ORIGINAL AMOUNT. HOWEVER, PHILIPPI MADE CLEAR THIS PROPOSED REDUCTION IN TAX CLAIMS ONLY ACCEPTABLE AS PART OF PACKAGE.

7. AT FINAL SESSION, QUIGLEY PRESENTED COUNTER-PROPOSAL CALLING FOR GOC PAYMENT OF CODELCO NOTES FOR PURCHASE OF 51 PERCENT ANACONDA HOLDINGS AND PAYMENT OF OUTSTANDING CODELCO NOTES GUARANTEEING

COMPENSATION FOR THE 49 PERCENT, WHICH ARE IN THE AMOUNT OF 80 PERCENT OF BOOK VALUE. GOC COULD THEN DEDUCT TAX CLAIM AND SUPPOSED EXCESS PROFITS FROM REMAINING TOTAL NET WORTH ANACONDA HOLDINGS.

8. PHILIPPI EXPRESSED SURPRISE AT DISTANCE WHICH STILL SEPARATED PARTIES ON BASIS THIS COUNTER-PROPOSAL. HOWEVER, IT WAS AGREED THAT ANACONDA TEAM WOULD COME TO SANTIAGO FOR RENEWED TALKS.

9. VARGAS ANTICIPATED THAT ANACONDA TEAM WOULD NOT ATTEMPT TO MEET WITH JUNTA DURING TALKS NEXT WEEK. HE SAID QUIGLEY AND PHILIPPI DEVELOPED GOOD RAPPORT WHICH QUIGLEY WANTS PRESERVE. TEAM WOULD LIKE TO TALK TO RAUL SAEZ, BUT THIS IS DIFFICULT BECAUSE TEAM IS ANXIOUS NOT TO EMBARRASS PHILIPPI AND, IN ADDITION, SAEZ IS LEAVING FOR EUROPE DURING WEEK.

10. IN RESPONSE TO MY QUESTION, VARGAS SAID THAT, ENTIRELY AGAINST HIS ADVICE, ANACONDA IS VERY MUCH INTERESTED IN CONFIDENTIAL

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RENEWED ACTIVITY IN CHILE. GOC ALSO INTERESTED IN HAVING ANACONDA HERE, AT LEAST IN A TECHNICAL ADVISORY ROLE.

11. REGARDING KENNECOTT, VARGAS SAID A GROUP OF MID-LEVEL EXECUTIVES HAVE BEEN IN SANTIAGO SINCE JUNE 10, WORKING WITH PHILIPPI'S PEOPLE TO SORT OUT TAX QUESTIONS. HE SAID ADVANCE KNOWLEDGE OF KENNECOTT VISIT WAS A FACTOR IN ANACONDA'S WILLINGNESS CONDUCT TALKS HERE.

THOMPSON

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COPPER, INDUSTRY, PROFITS, NATIONALIZATION, NEGOTIATIONS, TAXES, CONTRACTS
Control Number: n/a
Copy: SINGLE
Draft Date: 13 JUN 1974
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: izenbei0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974SANTIA03402
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740154-0099, D740155-0535
From: SANTIAGO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740648/aaaabows.tel
Line Count: 116
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: EXDIS
Reference: STATE 120407
Review Action: RELEASED, APPROVED
Review Authority: izenbei0
Review Comment: n/a
Review Content Flags:
Review Date: 18 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <18 SEP 2002 by kelleyw0>; APPROVED <14 FEB 2003 by izenbei0>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: COPPER NEGOTIATIONS
TAGS: EIND, EFIN, CI, ANACONDA, (QUIGLEY), (VARGAS), (MANUEL)
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005